

**Northeast  
Utilities System**

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June 2, 2004

VIA HAND DELIVERY

Mary L. Cottrell, Secretary  
Department of Telecommunications and Energy  
One South Station, Second Floor  
Boston, Massachusetts 02110

Re: **NSTAR Electric**, D.T.E. 03-121

Dear Secretary Cottrell:

Please accept this letter as Western Massachusetts Electric Company's ("WMECO") initial brief to the Department of Telecommunications and Energy ("Department") in the above-referenced proceeding. WMECO intends to submit a reply brief on June 18, pursuant to the revised briefing schedule established by the Hearing Officer in his May 17, 2004 ruling.

**I. Procedural History**

On January 16, 2004, Boston Edison Company, Cambridge Electric Light Company, and Commonwealth Electric Company, d/b/a NSTAR Electric (hereinafter referred to as "NSTAR Electric"), submitted for approval tariffs designed to provide cost-based standby rates for medium- and large-sized commercial and industrial customers who have their own on-site, self-generation facilities. This type of self-generation is generally referred to as distributed generation ("DG"). The tariffs were to be effective on February 4, 2004. Department Notice of Public Hearing and Procedural Conference, January 20, 2004; NSTAR Electric, January 16, 2004 filing letter; Exh. NSTAR-HCL-1, p. 16 *et seq.* NSTAR Electric had previously submitted standby rate tariffs to the Department on October 31, 2003, but withdrew the tariffs and submitted them on January 16, 2004 in order to provide the Department with additional time for review and investigation, consistent with the Department's statutory authority to suspend rates filed by an electric company for a period no greater than six months (NSTAR Electric, January 16, 2004 filing letter). G.L. c. 25, § 18.<sup>1</sup>

In its Notice Of Public Hearing and Procedural Conference of January 20, 2004, the Department indicated it would investigate NSTAR Electric's proposed tariffs in order to ensure that NSTAR Electric used an appropriate method for the calculation of standby or back-up rates. The Department also stated that it would investigate whether "(1) standby rates with their own on-site, self-generation facilities pay an appropriate share of distribution system costs; (2) distribution companies should recover their costs through fixed or variable charges; (4) standby rates should reflect embedded and/or incremental costs; and (4) distribution companies should offer firm and non-firm standby service." The Department therefore broadened the scope of its

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<sup>1</sup> NSTAR Electric subsequently filed amended, illustrative tariffs with the rebuttal testimony of Henry C. LaMontagne. Exh. NSTAR-HCL-7; Exh. NSTAR-HCL-10.

investigation to include certain generic issues pertaining not simply to NSTAR Electric but also to distribution companies. WMECO is a distribution company pursuant to G.L. c. 164, § 1.

On January 29, 2004, WMECO petitioned to intervene in D.T.E. 03-121 and intervention was granted by the Hearing Officer on February 10, 2004. Pursuant to the direction of the Hearing Officer, WMECO notified the Department of its intent to file a direct case on February 27, 2004. This direct case was submitted on March 16, 2004 in the form of the pre-filed testimony of Edward A. Davis, Manager of Pricing Strategy and Administration for Northeast Utilities Service Company, an affiliate providing services to WMECO. Exh. WM-EAD-1. Subsequent to the filing of direct testimony, the Department provided for the filing of rebuttal testimony. While not filing its own rebuttal testimony, WMECO agrees with the positions taken in the rebuttal testimony of NSTAR Electric's witness Hethie S. Parmesano and has joined in supporting her testimony. Exh. NSTAR-HSP-1, p. 1.

Mr. Davis, WMECO's witness, was examined by the Department and cross-examined at an evidentiary hearing on May 3, 2004. Ms. Parmesano was examined and cross-examined on May 5, 2004. Overall, the Department held eight days of evidentiary hearings and 15 witnesses testified.

## **II. WMECO Supports the Rate Goals Presented by NSTAR for Standby Rates.**

WMECO has testified that the policy goals identified by NSTAR Electric witness LaMontagne provide proper guidance in approaching standby rates. Exh. WM-EAD-1, p. 3. The goals that Mr. LaMontagne identified were:

1. Standby service tariffs should ensure that customers pay an appropriate share of distribution system costs.
2. Standby service tariffs should provide an appropriate price signal to customers seeking to install DG (*i.e.*, the price should reflect the full cost of providing the standby service to the DG customers).
3. Standby service tariffs should reflect the actual cost of providing standby service to DG customers in order to avoid shifting these costs to other customers [Exh. NSTAR-HCM-1, p. 10].

Similarly, WMECO has emphasized the goal of ensuring that "cost responsibility follows cost causation and that cost shifting be avoided in any movement to a competitive market." Exh. WM-EAD-1, p. 3. The goals set forth by Mr. LaMontagne are the same ones identified by the Department in D.T.E. 02-38. *Order Opening Investigation into Distributed Generation*, D.T.E. 02-38, p. 4 (June 13, 2002) and they should serve as an established basis in any standby rate determination.

By adopting these goals, WMECO agrees that standby rates will "(1) facilitate the development of cost-effective DG; (2) avoid inappropriate cross-subsidization of costs among customers; and (3) send the appropriate economic price signals to customers considering DG options not previously available on the market." Exh. NSTAR-HCM-1, p. 11.

## **III. WMECO Believes NSTAR Electric's Standby Rate Design Is Reasonable But Should Not Be Applied to Other Distribution Companies Without a Separate, Independent Examination.**

WMECO has testified that NSTAR Electric's approach to standby rate design incorporates a number of important elements that reflect the unique situation of standby service customers. Exh. WM-EAD-1, p. 4. NSTAR Electric appropriately takes existing rates as a starting point for distribution customers of a service

class having similar service characteristics. NSTAR's proposal then serves to assign proper cost responsibility by delineating fixed and variable costs. And, fixed cost responsibility is applied to recognize the unique nature of standby customers through the use of a contract demand. NSTAR Electric's proposal also reasonably recognizes that contract demand is not needed for non-firm, interruptible service where the distribution company has reduced cost incurrence as a result of a reduced level of delivery assurance. *Id.* In addition, consistent with the NSTAR Electric proposal, Mr. Davis testified that combining a contract demand and supplemental service ensures that service is provided at rates consistent with the Department's goals. *Id.* Finally, Mr. Salamone's testimony, Exh. NSTAR-CPS-1, shows how the standby rates proposed are consistent with NSTAR Electric's distribution system planning.

While NSTAR Electric's rate design appears reasonable for NSTAR Electric, it is not necessarily the design that should be chosen for WMECO or other distribution companies. Mr. Davis indicated that standby rates should be established for WMECO only in the context of a WMECO-specific proceeding in which WMECO's unique customer mix, cost characteristics and overall rate structure is analyzed. *Id.* For this reason, although WMECO is in conceptual agreement that a kilowatt exemption paired with a kilowatt cap is reasonable, WMECO cannot state at this point whether an exemption for on-site generation for customers with a nameplate rating equal to no more than 15% of a customer's maximum potential demand is the proper level for WMECO. Tr. p. 608; Exh. AG-1 (Rochester Gas and Electric Corporation ("RGE") standby rate tariffs), Leaf No. 237. Similarly, a 20% exemption for on-site generation paired with a 500 kilowatt cap may be perfectly reasonable for NSTAR Electric based on NSTAR Electric's analysis, but this may not be the appropriate percentage exemption and kilowatt cap for other distribution companies. Tr. p. 608-609.

Further, as Mr. Davis indicated in response to questions concerning Exhibit AG-1, the RGE tariffs, particular provisions in a standby rate may be reasonable for RGE in the context of all its rates, standby and continuous use, that may not be reasonable to another electric company in a different state in a different rate environment. Tr. pp. 608-616. A company-specific determination will determine the appropriate terms for each company.

**IV. Distributed Generation Has the Potential to Provide Benefits Beyond Those Accruing to the Owner of a Facility But Subsidizing Standby Rates Is Inefficient and Improperly Shifts Costs to Other Customers.**

WMECO acknowledges that in certain circumstances DG can provide benefits beyond those realized by the owner of a DG facility. An example of this is a reduction of air pollutants. Exh. NSTAR-HSP-1, p. 3. However, the beneficial effects of one or more DG facility is not a good reason to establish rates that allow all DG customers to avoid cost responsibility. First, such rates would benefit both the socially beneficial and non-beneficial DG facilities. Second, governmental entities have established programs to aid socially beneficial DG facilities. *See e.g.*, Exh. NSTAR-HSP-1, pp. 7-8. Further, below-cost rates distort the design and operation of DG facilities, can lead to inefficient distribution investment by an electric company, and improperly shift costs to other customers. Exh. NSTAR-HSP-1, pp. 8-9. This is directly contrary to the proper goals for standby rates, as discussed in Section II, above.

As Ms. Parmesano states in her rebuttal testimony, the test of whether a "standby rate is appropriate should not be whether it discourages some potential DG projects, but rather, whether it is a reasonable mechanism to recover the costs of (1) standing by to provide service; and (2) delivering energy when the DG experiences an outage." Exh. NSTAR-HCP-1, p. 3.

**V. Conclusion**

WMECO supports the general goals and application of those goals set forth by NSTAR Electric in establishing standby rates in this proceeding. To the extent WMECO is familiar with NSTAR Electric's rates and planning process, the proposed standby rates appear reasonable. However, NSTAR Electric's standby rates may not be appropriate for WMECO or other distribution companies. Standby rates for WMECO should be established only after a company-specific analysis.

Respectfully submitted,

WESTERN MASSACHUSETTS  
ELECTRIC COMPANY

By its attorney,

*Stephen Klionsky*

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